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SUBJECT: COALITION TALKS FAIL: SOCIALISTS PREPARE WEAKER ALTERNATIVE

Classified By: JEFFREY D. LEVINE FOR REASONS 1.4 B&D

1. (C) SUMMARY. High-stakes coalition talks between the Bulgarian Socialist Party (BSP) and that of outgoing PM Simeon Saxe-Coburg Gotha collapsed July 22 with the Simeon Movement (NMSS) announcing it would not participate in a BSP-led government. The Socialists, who won a small plurality in the June 25 elections, have spent nearly a month trying to coax the defeated Simeon Movement into a three-party coalition, seen by many as the best option for Bulgaria's political stability and timely EU accession. The Socialists have told us they will now propose a two-party coalition with the predominantly-Turkish Movement for Rights and Freedom (MRF) before their mandate expires on July 25. The proposed government, however, would require support from minor parties or individual MPs in order to be approved. Parliament is scheduled to vote on the new government July 26. END SUMMARY

SOCIALISTS TO RESORT TO PLAN B

2. (C) As coalition talks intensified over the past week, insiders from both parties grew increasingly hopeful that agreement could be reached. Despite significant political and personal differences, most analysts agreed a BSP-NMSS partnership would offer a more stable government, capable of leading Bulgaria into the European Union. The NMSS decision to go into opposition, however, ended the BSP's hopes for a broad coalition government and will force the BSP to use its back-up plan. The BSP and MRF together control only 116 seats in the 240-seat parliament. Socialist leaders tell us they have secured enough votes to achieve a majority relying on individual MP's from other parties. In addition, the BSP may seek support from the center-right Bulgarian People's Union, led by former Sofia Mayor Stefan Sofianski, for a secret vote to approve the government. A secret vote would

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allow for more deal-making and offer a conducive atmosphere for breaking Party ranks.

3. (C) BSP leader and Prime-Minister designate Sergei Stanishev told the Charge he had offered numerous compromises with the NMSS but was unable to satisfy their frequently-changing demands. He laid part of the blame on current NMSS ministers who could not accept giving up their posts. He, like his NMSS counterparts, agreed that the three-party coalition would have better served Bulgaria.

SIMEON TO BECOME OPPOSITION LEADER

4. (C) NMSS leaders told us the reasons for the rupture, which came just a day after intra-party negotiations reached agreement on the distribution of cabinet positions, were both psychological and substantive. Throughout the negotiations, members of Simeon's negotiating team told us the BSP was not treating them as a serious partner nor was Simeon personally given the respect he deserved. The presence of the MRF - their current coalition partners with which they have very strained relations - was also a major point of contention. BSP leader Sergei Stanishev told the Charge, that he "felt like a marriage counselor" when trying to resolve difference between the NMSS and the MRF. The BSP, according to NMSS negotiations, also wanted political councils in some of the ministries to provide direction to the Minister - something the NMSS could not accept. NMSS sources have told us that they have the money and resolve to hold out for an early election should BSP stumble in its efforts to prepare Bulgaria for EU entry in January 2007.

5. (C) COMMENT: If events follow the proposed schedule, Parliament will be asked to approve what is in effect a minority government. While the BSP thinks it has the votes, its approval cannot be taken for granted. More important however is whether such a weak coalition will be able to undertake the necessary heavy-lifting to pass the serious legislation required for EU entry. From our perspective, the departure of the NMSS means an even larger number of unknown and/or inexperienced ministers. While the BSP leadership has been open and accessible to us since the election, our NMSS relationship would have been useful in pursuing US interests. An NMSS presence would also have made abrupt changes in the Government's Iraqi policy more unlikely. END COMMENT